

2006 Strategic Business Plan

July 1, 2005 through June 30, 2006



**MONTANA
STATEFUND**

Our Mission:

Montana's insurance carrier of choice and industry leader in service.

TABLE OF CONTENTS

From the President	I
Executive Summary	3
Strategic Framework	4
Key Success Measures	5
Enterprise-Wide Initiatives	6
Organizational Profile	8
Financial Projections	9
Board of Directors	10

**Safety first.
Safety second.
Safety third, fourth and fifth.**

Workplace safety needs to be everyone's top priority. No matter what size your business, Montana State Fund helps you protect your most valuable assets, your employees. We've become Montana's preferred workers' compensation provider by offering innovative safety programs and superior service. To find out how we can help you, contact your local Montana State Fund agent, visit us at montanastatefund.com, or call 800-332-6102.

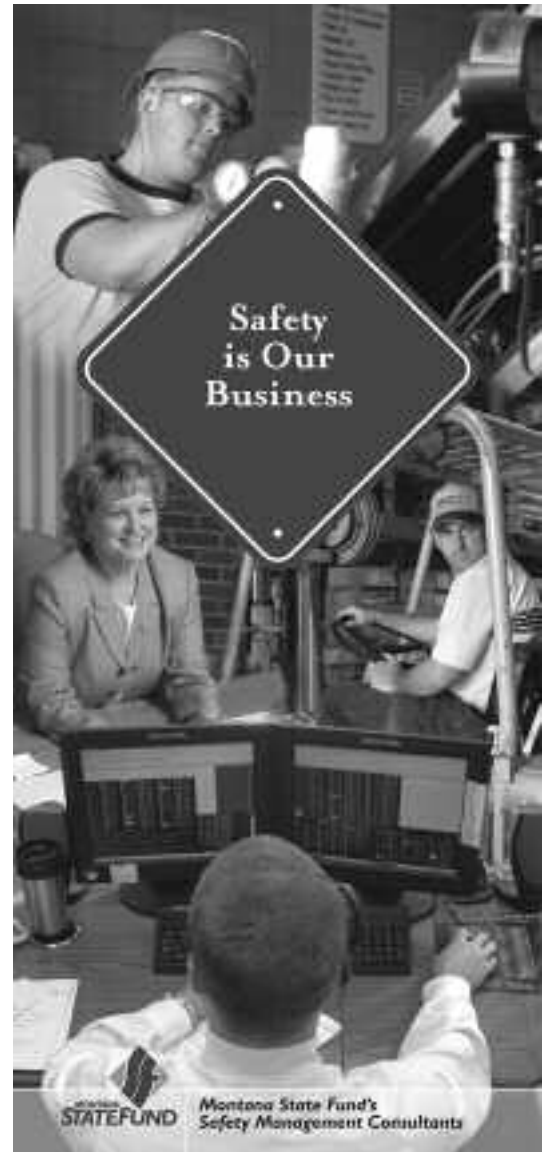
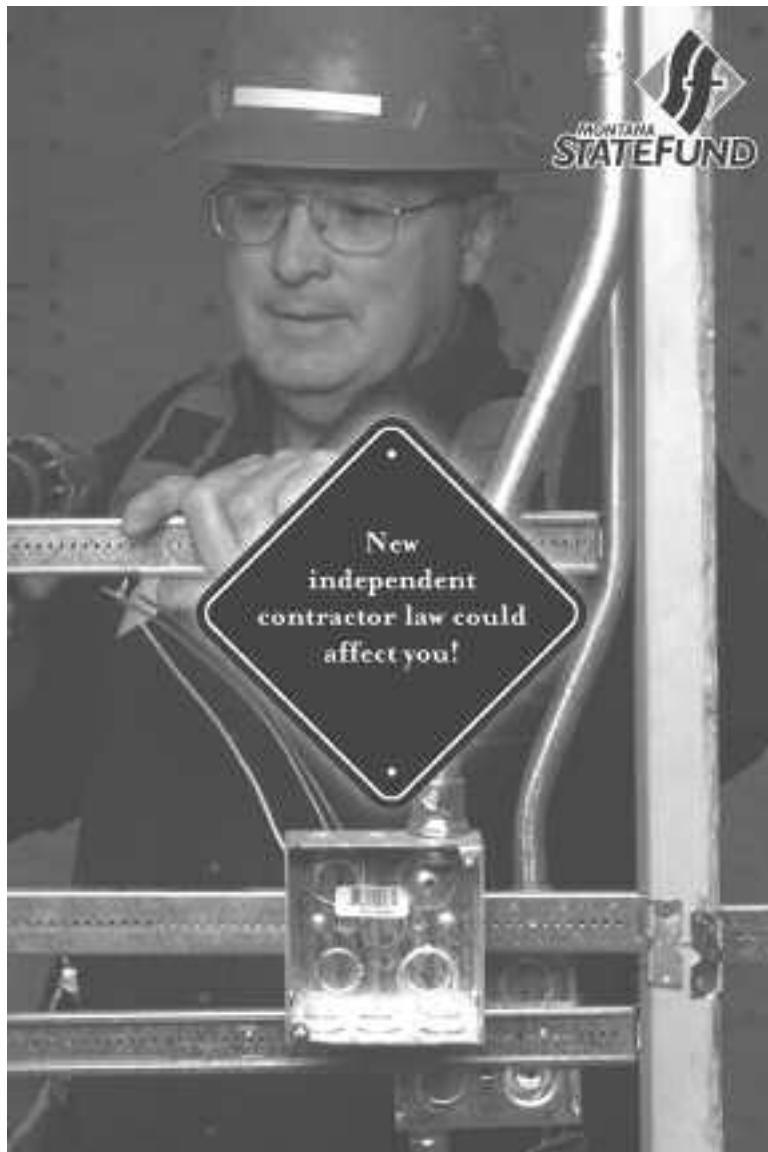
MONTANA
STATEFUND



**Your last
words shouldn't be,
"Relax, I've done this
a hundred times."**

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From the President . . .



Strategic Planning — The Foundation of Our Success

“No organization can depend on genius; the supply is always scarce and unreliable. It is the test of an organization to make ordinary human beings perform better than they seem capable of, to bring out whatever strength there is in its members, and to use each person’s strengths to help all the others perform. The purpose of an organization is to enable common people do uncommon things.” Peter Drucker, Economist/Author

In my mind, strategic planning is a disciplined effort to produce fundamental decisions and actions that shape and guide what an organization is, what it does, and why it does it, with a focus on the future.

A word by word dissection of this definition provides the key elements that underlie the meaning and success of a strategic planning process: The process is **strategic** because it involves preparing the best way to respond to the circumstances of our organization’s environment, whether or not they are known in advance. Being strategic then means being clear about our mission, vision and business objectives, being aware of our resources, and incorporating these into being consciously responsive to a dynamic environment.

The process is about **planning** because it involves intentionally setting goals, developing an approach to achieving those goals, and coordinating the people and resources necessary to achieve them.

The process is **disciplined** because it calls for a certain order and pattern to keep it focused and productive. The process raises a sequence of questions that helps us examine experience, test assumptions, gather and incorporate information about the present, and anticipate the environment in which we will be working in the future.

Finally, the process is about **fundamental decisions and actions** because choices must be made in order to answer the sequence of questions mentioned above. The plan is ultimately no more, and no less, than a set of decisions about what to do, why to do it, and how to do it. Strategic planning implies that some decisions and actions are more important than others — and that much of the strategy lies in making the tough decisions about what is most important to achieving organizational success. It must also anticipate the need for flexibility in meeting a rapidly changing business environment.

Ultimately, strategic planning is only useful if it supports strategic thinking and leads to strategic management — the basis for an effective organization. Strategic thinking means asking, “Are we doing the right thing?” More precisely, it means making that assessment using three key requirements about strategic thinking: a definite purpose be in mind; an understanding of the environment, particularly of the forces that affect or impede the fulfillment of that purpose; and creativity in developing effective responses to those forces. It follows, then, that strategic management is the application of strategic thinking to the job of leading an organization.

An essential part of our vision as an organization is that we are committed to the health and economic prosperity of Montana. We know that you, our stakeholders, rely on us to be able to envision how we can maximize our resources to fulfill our mandate as a competitive state fund. It is a challenge we willingly accept.

We attribute much of the ongoing success we've enjoyed at MSF to our strategic planning process. Each year we undergo a comprehensive organizational review, looking for improvements and new ways in which we can provide services to our customers and improve efficiencies and effectiveness in our operations. I trust that after reviewing our FY06 Strategic Plan, you'll gain important insight into what differentiates Montana State Fund from other workers' compensation carriers.

Thank you for your ongoing support.



Laurence Hubbard
President and Chief Executive Officer



Executive Summary

Montana State Fund operates in a dynamic and competitive environment. Our future success is dependent upon our ability to anticipate changing market conditions, reacting rapidly and appropriately. Ultimately, we will continue to weather the forces of change by being responsive to the needs of our customers and stakeholders. We will use our resources to build upon the foundation that has served us so well in the past to maintain a viable and stable workers' compensation market for Montana businesses.

The strategic priorities identified in this plan focus on those elements that improve efficiency and, at the same time, enhance overall customer satisfaction. We have also established specific financial targets that quantify our results in a meaningful way. Together, this two-pronged approach strengthens our organization and positions us appropriately to meet the challenges that lie ahead.

Our Enterprise-Wide Initiatives for fiscal year 2006 are:

1) Improve Employee Satisfaction

Be viewed as a preferred employer that creates and nurtures an environment where employees are recognized as our most valuable asset.

2) Develop the Leaders of Tomorrow

Enhance current leadership development and identify those individuals within our organization who have potential to assume greater responsibility.

3) Improve Customer Satisfaction

Continue to address our customers' needs, wants and expectations.

4) Successfully Implement New Claims System

Implement new web-based technology that includes claims functionality.

5) Capitalize on Organizational Efficiencies

Deliver superior service to our existing external/internal customers.

Strategic Framework

Mission

Montana State Fund is Montana's insurance carrier of choice and industry leader in service.

Vision

Montana State Fund is committed to the **health** and **economic prosperity** of Montana through **superior service, leadership, and caring individuals** working in an environment of **teamwork, creativity, and trust**.

Guiding Principles

Integrity and Ethical Conduct

In the course of providing superior service to our policyholders, their injured employees, and insurance producers, we will conduct ourselves ethically and with the highest degree of integrity.



Customer Focus

Enhance and maintain a partnership with stakeholders in the true spirit of cooperation and collaboration. Enter into strategic partnerships where and when they provide value added to the service and products we provide our customers.

Strong Financial Position

Set adequate rate levels to maintain financial strength and stability ensuring long-term viability and financial solvency.

Offer Quality and Competitive Insurance Products

Deliver high-quality insurance products to Montana businesses at the lowest possible cost consistent with sound insurance principles. Foster and support a competitive insurance market in Montana. MSF functions like a private insurer, offering a competitively priced product based upon actuarially sound rates while still fulfilling our role as the guaranteed market.

Strategic Framework/Strategic Key Success Measures

Employee Growth and Development

Provide a performance-driven culture within a continually improving work atmosphere that is conducive to the personal and professional growth and development of our employees. Promote a customer-focused, team-oriented, high-performance environment that empowers, challenges, satisfies and rewards our employees.



FY 2006 Key Success Measures

Key success measures are the goals/objectives established for fiscal year 2006. They represent **SMART** goals in that they are **S**pecific, **M**easurable, **A**ttainable, **R**ealistic and **T**imely.

The following objectives represent the corporate level key success measures that will allow us to gauge our financial and strategic progress. We have incorporated five financial measures and one qualitative measure that, combined, define success for Montana State Fund.

- 1) Achieve targeted FY Net Operating Income before dividend of \$8.5 Million.
- 2) Achieve total Net Earned Premium of \$191.8 Million.
- 3) Achieve Fiscal Year Loss Ratio of 84.7%.
- 4) Maintain an Expense Ratio of 26.4% or less.
- 5) Achieve Investment Income of \$32.0 Million.
- 6) Achieve Enterprise-Wide Initiatives.

Enterprise-Wide Initiatives



Enterprise-Wide Initiatives

Enterprise-wide initiatives are mission critical to the success of Montana State Fund. They are supported by a myriad of multi-functional initiatives that are both actionable and measurable and function to ensure we accomplish our stated goals/objectives.

1) Improve Employee Satisfaction

Create and nurture, within the organization, an environment where employees are recognized as our most valuable asset, treated with respect, given the opportunity to grow personally and professionally, and assist with Montana State Fund's evolution into the **"employer of choice."**

Key Performance Indicators/Functional Support

Employee Opinion Survey Follow-Up
Employer of Choice
Human Resource Business Process Modeling
Information Technology Employee Development

2) Develop the Leaders of Tomorrow

Enhance current leadership development and identify those individuals within our employee ranks who have demonstrated the ability to assume greater responsibility and develop the requisite training and mentoring programs that will allow them to fully utilize their skills, talents and abilities in leading Montana State Fund in the future.

Key Performance Indicators/Functional Support

Leadership Training
Succession Planning

3) Improve Customer Satisfaction

Through ongoing dialogue with our customers, ensure that Montana State Fund addresses their needs, wants and expectations and that we continue to fulfill our commitment to be the **insurance carrier of choice** for Montana businesses.

Enterprise-Wide Initiatives

Key Performance Indicators/Functional Support

Policyholder/Injured Employee Survey Follow-Up and Implementation
Young Workers Program
“One More Touch” Customer Service Program

4) Successfully Implement New Claims System

Implement new insurance specific software that enables Montana State Fund to extend functionality to all internal claims processes. Included with this claims functionality are all applicable architecture revisions to facilitate an eBusiness model.

Key Performance Indicators/Functional Support

“Claim Center” Software Implementation
Storage Upgrade (SAN)



5) Capitalize on Organizational Efficiencies

Deliver superior service to our external/internal customers through ongoing refinement of services that include a focus on effective claims management, operational processes and workflows while responding to customer needs in the most efficient and cost-effective manner.

Key Performance Indicators/Functional Support

Records Management
IT Quality Management
I.D. Synchronization
Production System Redundancy (RAC Failover)
Windows Upgrade
Intrusion Detection/Prevention
Claim Guide
Optical Storage (OSAR) Upgrade

Organizational Profile

The State of Montana originally established the predecessor to Montana State Fund (MSF) in 1915 to function as a competitive workers' compensation insurance carrier. Since that time, MSF has operated under a number of different forms, with its current structure resulting from legislative actions taken in 1990. At that time, the legislature separated the workers' compensation regulatory function (originally established in the Montana Department of Labor and Industry) from the day-to-day insurance operations responsibilities (which were vested in a separate, new entity known as Montana State Fund). A seven member Board of Directors, appointed by the Governor, governs the operations of Montana State Fund. The Board is also responsible for appointing the President/CEO.

Montana State Fund is a self-sufficient, not for profit, workers' compensation insurance carrier. Our statutory purpose is to act as a competitive insurance carrier, providing an available market, and, thereby, guaranteeing coverage to all employers in Montana. We receive no taxpayer or general fund money, operating solely on the premium dollars paid by the insured employers and the net revenues from our investments. We function like a private insurance carrier in a competitive marketplace and, as provided by law, perform all the functions and exercise all the powers of a private insurance carrier that are necessary, appropriate, or convenient for the administration of the Montana State Fund.



MSF has undergone a number of changes since our creation in 1990. We have transitioned from a traditional organizational structure to one that is more adapted to the demands of the information age. A comprehensive corporate re-design in 2000 enhanced our operational flexibility with the addition of multi-functional teams that are aligned with specific groups of employers. This change resulted in a "flatter" organization, increasing employee empowerment, allowing us to work more closely with policyholders and injured employees. We continue to strive to improve efficiencies in all operational areas and have made a major investment in our safety management services, working diligently with Montana employers in developing accident prevention programs. As our states economic structure continues to evolve, we stand ready to continue filling our critical role as the guaranteed workers' compensation market for all Montana employers.

Financial Projections

PROJECTED RESULTS OF OPERATIONS MONTANA STATE FUND

Statutory Basis

Operating Statement

	Actual		Best Estimate	(\$'000)	
	2004	2005	2006	2007	2008
Premium Income	\$139,361	\$188,365	\$191,832	\$196,928	\$201,009
Investment Income	27,666	29,180	32,018	34,396	36,788
Other Income	(1,403)	(1,773)	(2,297)	(2,729)	(3,183)
Total Losses and Expenses	171,978	200,380	213,081	217,656	222,254
Policyholder Dividend	(1,910)	(5,000)	TBD	TBD	TBD
Net Income	(\$8,264)	\$10,392	\$8,472	\$10,939	\$12,360

TBD - Future dividends to be determined by Board of Directors

Premium to Surplus Ratio (X:1)*	1.08	1.28	1.28	1.22	1.16
Loss Reserve to Surplus Ratio (X:1)*	3.49	3.48	3.75	3.78	3.75
FY Combined Ratio (Loss+LAE+UW)	123.40%	106.38%	111.08%	110.53%	110.57%
Dividend to Premium Ratio	1.37%	2.65%	TBD	TBD	TBD

* - Ratios prior to any dividend declaration

Balance Sheet

Total Assets	\$749,808	\$812,440	\$875,123	\$928,822	\$979,244
Unpaid Loss and Loss Adj. Exp.	\$452,115	\$510,685	\$563,217	\$609,031	\$650,189
Other Liabilities	170,201	159,981	161,659	158,605	155,509
Total Liabilities	\$622,316	\$670,666	\$724,876	\$767,636	\$805,698
Surplus	\$127,492	\$141,774	\$150,247	\$161,186	\$173,546
Total Liabilities and Surplus	\$749,808	\$812,440	\$875,123	\$928,822	\$979,244

Montana State Fund Board of Directors

Ed Henrich, Chairman
Fairmont

Jane DeBruycker
Dutton

Ken Johnson
Missoula

Mardi Madsen
Billings

James Swanson
Glendive

Lawrence Zanto
Helena





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